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SUBJECT: INDUSTRIAL PARK TO BE BUILT IN DJIBOUTI

1. (U) SUMMARY: New American investment has come to Djibouti. Ali Toubeh, assistant to Saad Ahmed Cheikh - late owner of COMAD and a prominent figure in Djiboutian business - is carrying on Cheikh's last business venture. North Holding Investment Share Company was created as a subsidiary of the Virginia-based North Holding Investment, Inc and is now under the leadership of Toubeh. With the financial backing of two American institutions, Sovereign Bank and Sofitel Capital Corporation USA, Inc, Toubeh is continuing Cheikh's vision of a 60-hectare industrial park on the outskirts of Djibouti City. The Industrial park will start with a factory to create pasta and other foodstuffs and a transportation division of 500 MACK trucks. The second phase will include factories for textiles, paint, and spare parts. Total jobs created for the initial phase is projected at a minimum of 1,500 positions. The textile factory will add another 1,400 minimum, along with several hundred for each of the other two factories. The venture has full backing from the Djiboutian Government, which gave North Holding the land for free and a tax holiday for the first ten years. Market studies for consumers in the COMESA (Common Market for Eastern and Southern Africa) and worldwide markets have been completed with projections of high income for the venture. END SUMMARY.

2. (U) Several months before his death in April, Saad Ahmed Cheikh had set-up a subsidiary of the Virginia company, North Holding Investment, Inc (NHI) in Djibouti under the name North Holding Investment Share Company (NHISC). Securing financial backing from its American parent company and other financial institutions was started before Cheikh died. Saad's inheritors were not interested in pursuing the business opportunity after Saad's death and the company was dissolved. However, Cheikh's assistant and business partner, Ali Toubeh, resurrected the venture. The company was recreated in the same name and the deal continued with the support of Cheikh's American business partners. NHISC now is in the process of finalizing its financial support from Sovereign Bank and Sofitel Capital Corporation USA, Inc. It is also in the process of securing private insurance for its loans.

3. (U) Cheikh's concept for the industrial park was in alignment with President Ismail Omar Guelleh's development objectives for his next six-year term. Toubeh's pitch to the government garnered full support from the Presidency and the Ministry of Finance. The Government has given NHISC an investment incentive in the form of a temporary land grant and a tax holiday for the first ten years of business under the current investment code. NHISC is also authorized to request an additional five-years of tax holiday should it desire. The Government has also agreed to facilitate the energy and water needs of the new complex, and all guarantees in needs to secure the initial capital layout.

4. (U) NHISC aims to harness the expected success of the upcoming oil and container terminals at the Doraleh Port Facility. Djibouti's prime location along the Red Sea shipping routes, and its potential as a future major trans-shipment point, will also play in NHISC's favor. The objective of the project is to create a transport system that will serve the Ethiopian market and eventually that of COMESA. The transport system projects acquiring a target of 500 MACK trucks over a five-year period to transport dry, container, and bulk fluid cargo. Employment for the transportation is expected to be a minimum of 1100 persons.

5. (U) The first phase of the industrial complex will also include a Food Processing Factory, which will produce items such as flour, pasta, macaroni, baby food, biscuits, and cereals. The factory's products will be mainly for export, but five percent is destined for the local market. Minimum employment for this factory is estimated at 1000 persons. Production goals are to reach 340 tons per day, according to Toubeh. The Food Processing Factory will be complemented by a Packaging Plant that will produce PP bags and other kinds of packaging for finished products. Toubeh estimated that once construction is complete, installation of machines and other equipment will take nine months, putting the project operational date at about a year and half from now.

16. (U) The plan includes creation of three other factories two years after the initial phase becomes operational. A textile factory will be built for garment transformation and blankets at European and American standards. The finished garments will be exported to the world markets, including Africa. Employment is projected to be 3000 people working three-shifts in a 24-hour operation. Toubeh said that 70 percent of this workforce is expected to be women. An auto-parts factory will supply various parts to COMESA and world markets. Ninety-eight percent of production of the auto parts will be for export, while two percent will supply the local market. Expected employment is around 300 persons. The third factory is a state-of-the-art paint production facility, which will target the world market and employ around 600 persons.

17. (U) Due to the labor-intensive nature of the work envisioned by Toubeh's projects, significant benefits for the labor market are expected. Djibouti's economy is currently 100 percent service-based. The addition of industry jobs will greatly augment the number of potential jobs in Djibouti. Toubeh said that all market studies had already been completed and indicated a positive return on all phases of the venture. He also specified that the suppliers of the raw material for the factories will provide the training necessary for the largely unskilled labor force that will work in the factories. Toubeh expressed hope that financing would be finalized by the end of June and construction would begin at the end of 2005. If all goes as planned, the initial phase should be operational in a year and a half.

18. (U) Comment: While Doraleh remains the Government's biggest priority, increasing investment and economic opportunities comes a close second. Many are still unsure if Doraleh's projected success will come to fruition. The industrial park can provide a great benefit to the economy in the form of increased employment and expendable income that can further drive the need for services, and tangentially, increase development opportunities.

RAGSDALE